BlueLine
ASSET MANAGEMENT

MONTHLY LETTER I **November** 2019

Returns. The Blue Alpha fund posted a negative performance in November with -77bps coming from rates, -13bps from equities, and -53bps on fx. Cash and costs added +45bps.

International. November was a month in which international and local markets outlook decoupled. International markets kept a positive tone, in line with expectations that the first phase deal is reached in the trade discussion between the US and China, avoiding the implementation of new trade tariffs and also possibly reducing tariffs that were implemented in the past – if intellectual property and cyber security issues are also agreed on. The manufacturing sector seems to have reached bottom around the world, suggesting the current economic cycle can linger, reducing the risks of a recession in the short-term. Not less important, the expansionary and vigilant stance of the main central banks have around the world also have been supporting the markets.

Brazil. Themes related to the Supreme Court in Brazil, such as the issue of second instance imprisonment as well as the possibility of the annulment of Lula´s trial in the triplex apartment case help worsening the local market. The main impact of these issues is clearly the delay in the reform agenda, as we don´t see as a real risk Lula´s eligibility in 2022. The failure to attract foreign investors in the oil transfer of rights auction also supported the negative tone, mostly in the fx market. On the macro side, we had strong data on activity which, on the top of short-term inflationary shocks, affected the rates market. The BCB was pushed to intervene in the fx market, given the negative impact coming from demonstrations in Chile and Colombia and the perception that external accounts in Brazil are worse than initially imagined. Equities remains as our main bet, given the growth recovery scenario for 2020. We could see some relieve in the yield curve given the price shocks are temporary, the economic recovery is moderate and still high levels of output gap. On the other side, we don´t see fx as an attractive bet. The significant decrease in rates this year, the worsening of external accounts and global markets showing investment opportunities make the BRL not as attractive.

LatAm

In Mexico, we have been more optimistic with Mexico in the last couple of months. After a negative beginning, with the government intervention in the construction of the NAIM airport, AMLO´s government has been showing itself as pragmatic, especially on the fiscal side. The new infrastructure plan that counts with more than 170 PPP projects looks the right way to go and it can promote up to $45bi (3.4% of GDP) in investments. This should provide positive incentives to the economy in the coming years, even considering the operational difficulties that may happen during the implementation of this projects. The 2020 minimum wage definition is the key point in Mexico by the end of this year. The trade agreement that will replace NAFTA (USMCA) still presents some backlogs regarding local working laws and the lack of time to get approval in the American Congress. We like Mexican rates and fx.

In Chile, the Chilean government has been acting fast and in assertive manner to contain the social protests that have been happening for more than a month. Besides increasing social spending in more than 0.5% of GDP, the government scheduled a referendum in April 2020 to define the next steps to define the setting up of a Constitutional Assembly. The president has approval ratings close to 10% levels. This amid constitutional changes create political and social uncertainty. After the currency lost 12% in the year, finally the BBCH decided to intervene in the spot market with an aggressive program that would offer $10bn in the spot and $10bi in the forward market.

In Colombia, protests that resemble the ones in Chile start to spread but at a lower intensity. On another side, the fiscal situation of the country creates limits on how much the government can respond by increasing social spending. A factor that affected the Chilean peso, which was pension funds buying dollars, seems less likely in Colombia as pension funds are already close to the cap of dollar exposure. We remain negative on the currency, that was already suffering from the external accounts, and now suffers from social protests.

In Argentina, the first statements of the new government have been negative with a heterodox bias in terms of economic policies. Fiscal and monetary expansion, price-freezing, interventionist practices and a tougher stance with international organization have already been charactering the environment. The government cabinet is practically defined but no official announcement was made. The biggest short-term fear is the lack of control of inflation as a result of the new government policies. We remain cautious in Argentina and so we have no short-term exposure.

In Peru, despite the proximity, we have not been seeing social protests in Peru, like in Chile, Colombia and Bolivia. Legislative elections are scheduled to happen in January 2020 and will certainly be a main event for the country. Inflation in Peru has been below target at 1.87% and core is still well behaved, which opens room for rate cuts.

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